

December 11, 2017

Credit Headlines (Page 2 onwards): City Developments Ltd, Industry Outlook – Financial Institutions

Market Commentary: The SGD swap curve traded upwards on Friday, with swap rates trading 1-4bps higher across most tenors. Flows in SGD corporates were heavy, with better selling seen in GEMAU 5.5%19s, and mixed interest seen in OLAMSP 5.5%-PERPs. In the broader dollar space, the spread on JACI IG Corp fell 1bps to 180bps, while the yield on JACI HY Corp rose 2bps to 6.72%. 10Y UST yields rose 1bps to 2.38%, after details of the jobs report came in mixed and offered little directional catalyst, as the change in nonfarm payrolls came in higher-than-expected, but hourly earnings came in lower-than-expected.

New Issues: Huzhou City Investment Development Group Co Ltd has scheduled investor meetings for a potential USD bond issuance from 11 Dec. The expected issue ratings are 'NR/NR/BBB-'. Yangzhou Urban Construction State-owned Assets Holding (Group) Co Ltd has scheduled investor meetings for a potential bond issuance from 11 Dec. Bank of Chongqing Co Ltd has scheduled investor meetings for a potential USD AT1 issuance from 11 Dec.

Rating Changes: S&P has affirmed Elion Resources Group Co Ltd's (Elion Resources) 'B' long-term corporate credit rating, while revising the outlook to negative. The rating action reflects uncertainty regarding Elion Resources' funding access, following a technical default and misuse of bond proceeds. Moody's has affirmed KEB Hana Bank, Kookmin Bank and Shinhan Bank's ratings. The outlooks on the ratings of KEB Hana Bank and Shinhan Bank have been revised to stable from negative, while the outlook on the rating of Kookmin Bank has been maintained at stable. Moody's has also placed Woori Bank's long-term ratings, long-term counterparty risk assessment baseline credit assessment (BCA) and adjusted BCA of 'Ba3' under review for upgrade. The rating action reflects the improved operating environment for the banks, and Moody's expectations that structural changes in the loan portfolio and cost base that the banks have achieved will result in improved asset quality and profitability on a more sustained basis.

Table 1: Key Financial Indicators

| | 11-Dec | 1W chg (bps) | 1M chg (bps) | | 11-Dec | 1W chg | 1M chg |
|--------------------|--------|--------------|--------------|----------------------------|----------|---------|---------|
| iTraxx Asiax IG | 73 | 1 | -8 | Brent Crude Spot (\$/bbl) | 63.16 | 1.14% | -0.57% |
| iTraxx SovX APAC | 14 | 0 | -2 | Gold Spot (\$/oz) | 1,247.94 | -2.21% | -2.38% |
| iTraxx Japan | 46 | 0 | -3 | CRB | 185.02 | -2.97% | -3.46% |
| iTraxx Australia | 63 | 0 | -5 | GSCI | 420.33 | -2.13% | -1.93% |
| CDX NA IG | 51 | -1 | -5 | VIX | 9.58 | -16.19% | -15.15% |
| CDX NA HY | 108 | 0 | 1 | CT10 (bp) | 2.380% | 0.73 | -1.88 |
| iTraxx Eur Main | 47 | 0 | -5 | USD Swap Spread 10Y (bp) | 1 | -1 | 2 |
| iTraxx Eur XO | 232 | 5 | -13 | USD Swap Spread 30Y (bp) | -20 | 0 | 5 |
| iTraxx Eur Shr Fin | 46 | 0 | -6 | TED Spread (bp) | 28 | 4 | 9 |
| iTraxx Sovx WE | 3 | 0 | 0 | US Libor-OIS Spread (bp) | 15 | 2 | 5 |
| iTraxx Sovx CEEMEA | 43 | -2 | -10 | Euro Libor-OIS Spread (bp) | -1 | -2 | -3 |
| | | | | | | | |
| | | | | | 11-Dec | 1W chg | 1M chg |
| | | | | AUD/USD | 0.752 | -1.07% | -1.39% |
| | | | | USD/CHF | 0.993 | -0.76% | 0.38% |
| | | | | EUR/USD | 1.177 | -0.78% | 0.92% |
| | | | | USD/SGD | 1.352 | -0.34% | 0.71% |
| | | | | | | | |
| Korea 5Y CDS | 58 | 0 | -14 | DJIA | 24,329 | 0.40% | 3.87% |
| China 5Y CDS | 56 | 1 | -6 | SPX | 2,652 | 0.35% | 2.68% |
| Malaysia 5Y CDS | 64 | 1 | -6 | MSCI Asiax | 691 | -0.66% | -1.67% |
| Philippines 5Y CDS | 64 | 2 | -5 | HSI | 28,677 | -1.58% | -1.52% |
| Indonesia 5Y CDS | 95 | 2 | -8 | STI | 3,437 | -0.04% | 0.50% |
| Thailand 5Y CDS | 48 | 1 | -3 | KLCI | 1,725 | 0.68% | -1.00% |
| | | | | JCI | 6,031 | 1.32% | 0.15% |

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

| Date | Issuer | Ratings | Size | Tenor | Pricing |
|----------|---|----------------|----------|---------|--------------|
| 7-Dec-17 | Wuhan State-Owned Assets Management Limited Company | 'NR/NR/A-' | USD300mn | 3-year | CT3+195bps |
| 7-Dec-17 | Xinxing Industry Investment Company Limited | 'NR/NR/BBB' | USD300mn | 3-year | CT3+247.5bps |
| 7-Dec-17 | Wanda International Funding Pte Ltd | Not Rated | USD100mn | 3NC1 | 8.5% |
| 7-Dec-17 | China CITIC Bank Corporation Ltd | 'BBB+/Baa2/NR' | USD700mn | 3-year | 3mL+90bps |
| 7-Dec-17 | China CITIC Bank Corporation Ltd | 'BBB+/Baa2/NR' | USD300mn | 3-year | CT3+107.5bps |
| 7-Dec-17 | China CITIC Bank Corporation Ltd | 'BBB+/Baa2/NR' | USD550mn | 5-year | 3mL+100bps |
| 7-Dec-17 | China CITIC Bank Corporation Ltd | 'BBB+/Baa2/NR' | USD250mn | 5-year | CT5+110bps |
| 7-Dec-17 | ICICI Bank Ltd | 'NR/Baa3/BBB-' | USD500mn | 10-year | CT10+150bps |
| 6-Dec-17 | Qinghai Province General Aviation Group Co | Not Rated | USD300mn | 363-day | 6.00% |
| 6-Dec-17 | Chengdu Communications Investment Group Corporation Ltd | 'NR/NR/BBB+' | USD300mn | 10-year | CT10+245bps |

Source: OCBC, Bloomberg

Rating Changes (Cont'd): Fitch has upgraded Philippines Long-Term Issuer Default Rating (IDR) to 'BBB' from 'BBB-'. The outlook is stable. The rating action reflects Philippines strong and consistent macroeconomic performance, underpinned by sound policies that are supporting high and sustainable growth rates. Fitch also expects Philippines' fiscal profile to improve as a result of the government's tax reform initiative, and that there is no evidence that the violence associated with the administration's campaign against the illegal drug trade have undermined investor confidence.

Credit Headlines:

City Developments Ltd ("CDL"): CDL has announced that it had revised higher its offer (refer to [OCBC Asian Credit Daily – 10 October 2017](#)) for the balance of Millennium & Copthorne Hotels Plc (M&C) that it does not already own. The revised offer is 620 pence per share (of which 600 pence in cash and 20 pence in special dividend), representing a 36.3% premium over 06/10/17 (right before the initial offer was announced). If successful, the quantum of the acquisition would total GBP704.6mn (~SGD1.28bn). This, coupled with ~SGD723mn for CDL's stake in Amber Park, would increase CDL's pro-forma net gearing for end-3Q2017 to ~32% (from 15%). As mentioned previously, despite the expected deterioration, CDL's credit profile remains more conservative compared to its peers. As such, we will retain our Positive Issuer Profile. (Company, OCBC)

Industry Outlook - Financial Institutions: The Basel Committee on Banking Supervision ('BCBS') released its final version of Basel III late last week. A key component of the final piece of the existing legislation (which has also been referred to as Basel IV) addressed the approach for calculating risk weighted assets, which typically have been conducted by each bank using their own internal models. With regulators taking the view that internal approaches lack comparability and could underestimate exposure to loss in a stressed scenario (as occurred during the Global Financial Crisis), a limitation on internal models and a standardised approach to calculating risk weights was proposed. This would likely result in higher risk weights and hence higher capital requirement to comply with minimum capital requirements implemented earlier under Basel III. That said, regulators acknowledged that internal models developed by banks should be more accurate than those developed by supervisors and as such implemented a lower limit for internal models risk weight calculations compared to that under a standardised approach. BCBS set this lower limit at 72.5%, lower than expectations. BCBS also set the timeline for implementation and compliance at 2022 and 2027 respectively on a transitional basis, three years later than expected. On the whole, the announcement was viewed positively by the market and most banks. Although capital requirements will increase (BCBS estimate the total capital shortfall for internationally active banks at EUR90.7bn), they will not increase as much as expected. Although flagged as finalising Basel III, certain stakeholders such as the Institute of International Finance and the EU commissioner in charge of financial-services policy flagged the need for an impact assessment and to test that the rules adequately address banking system weakness while not creating an unreasonable burden before implementation. Elsewhere, the European Banking Authority already published an impact assessment based on FY2015 results for 88 European banks while the Australian Prudential Regulation Authority ('APRA') indicated the finalised rules can be incorporated under the APRA targets for unquestionably strong capital ratios set in July given APRA's already conservative risk weights. S&P opined that the reforms are not effective until incorporated into local legislation which could carry a risk that local regulators may not implement all tenements of the finalised regulations. Given execution uncertainties and the long timeline for implementation, there is no fundamental impact to banks in our coverage at this stage, although the rules at least provide some clarity for banks future capital requirements. (OCBC, Bloomberg, BCBS)

Andrew Wong

Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6530 4736
wongVKAM@ocbc.com

Nick Wong Liang Mian, CFA

Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6530 7348
NickWong@ocbc.com

Ezien Hoo, CFA

Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6722 2215
EzienHoo@ocbc.com

Wong Hong Wei

Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6722 2533
WongHongWei@ocbc.com

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